

107TH CONGRESS
1ST SESSION

S. 1676

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 13, 2001

Mr. KERRY introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Affordable Small Business Stimulus Act of 2001”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 **SEC. 2. INCREASE IN EXPENSE TREATMENT FOR SMALL**
 4 **BUSINESSES.**

5 (a) IN GENERAL.—Section 179(b)(1) (relating to dol-
 6 lar limitation) is amended to read as follows:

7 “(1) DOLLAR LIMITATION.—

8 “(A) IN GENERAL.—The aggregate cost
 9 which may be taken into account under sub-
 10 section (a) for any taxable year shall not exceed
 11 \$35,000 (\$25,000 in the case of taxable years
 12 beginning in 2001).

13 “(B) INFLATION ADJUSTMENT.—In the
 14 case of any taxable year beginning in a calendar
 15 year after 2002, the \$35,000 amount contained
 16 in subparagraph (A) shall be increased by an
 17 amount equal to—

18 “(i) such dollar amount, multiplied by

19 “(ii) the cost-of-living adjustment de-
 20 termined under section 1(f)(3) for the cal-
 21 endar year in which the taxable year be-
 22 gins, by substituting ‘calendar year 2001’
 23 for ‘calendar year 1992’ in subparagraph
 24 (B) thereof.

1 If any amount as adjusted under this subpara-
 2 graph is not a multiple of \$1,000, such amount
 3 shall be rounded to the nearest multiple of
 4 \$1,000.”

5 (b) EXPANSION OF PHASE-OUT OF LIMITATION.—

6 Section 179(b)(2) is amended to read as follows:

7 “(2) REDUCTION IN LIMITATION.—

8 “(A) IN GENERAL.—The limitation under
 9 paragraph (1) for any taxable year shall be re-
 10 duced (but not below zero) by the amount by
 11 which the cost of section 179 property for
 12 which a deduction is allowable (without regard
 13 to this subsection) under subsection (a) for
 14 such taxable year exceeds \$350,000 (\$250,000
 15 in the case of taxable years beginning in 2001).

16 “(B) INFLATION ADJUSTMENT.—In the
 17 case of any taxable year beginning in a calendar
 18 year after 2002, the \$350,000 amount con-
 19 tained in subparagraph (A) shall be increased
 20 by an amount equal to—

21 “(i) such dollar amount, multiplied by

22 “(ii) the cost-of-living adjustment de-
 23 termined under section 1(f)(3) for the cal-
 24 endar year in which the taxable year be-
 25 gins, by substituting ‘calendar year 2001’

1 for ‘calendar year 1992’ in subparagraph
 2 (B) thereof.

3 If any amount as adjusted under this subpara-
 4 graph is not a multiple of \$10,000, such
 5 amount shall be rounded to the nearest multiple
 6 of \$10,000.”

7 (c) TIME OF DEDUCTION.—The second sentence of
 8 section 179(a) (relating to election to expense certain de-
 9 preciable business assets) is amended by inserting “(or,
 10 if the taxpayer elects, the preceding taxable year if the
 11 property was purchased in such preceding year)” after
 12 “service”.

13 (d) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 2000.

16 **SEC. 3. MODIFICATIONS OF EXCLUSIONS AND ROLLOVERS**
 17 **OF GAIN ON QUALIFIED SMALL BUSINESS**
 18 **STOCK.**

19 (a) EXCLUSION OF GAIN ON QUALIFIED SMALL
 20 BUSINESS STOCK.—

21 (1) INCREASE IN EXCLUSION PERCENTAGE.—

22 (A) IN GENERAL.—Section 1202(a)(1) (re-
 23 lating to exclusion for gain from certain small
 24 business stock) is amended by striking “50 per-
 25 cent” and inserting “75 percent”.

1 (B) 100-PERCENT EXCLUSION FOR CRIT-
 2 ICAL TECHNOLOGY AND SPECIALIZED SMALL
 3 BUSINESS INVESTMENT BUSINESSES.—Section
 4 1202(a) is amended by adding at the end the
 5 following new paragraph:

6 “(3) CRITICAL TECHNOLOGY AND SPECIALIZED
 7 SMALL BUSINESS INVESTMENT BUSINESSES.—

8 “(A) IN GENERAL.—In the case of quali-
 9 fied small business stock acquired after the date
 10 of the enactment of this paragraph which is
 11 stock in—

12 “(i) a critical technology corporation,
 13 or

14 “(ii) a corporation which is a special-
 15 ized small business investment company
 16 (as defined in subsection (c)(2)(B)(ii)),
 17 paragraph (1) shall be applied by substituting
 18 ‘100 percent’ for ‘75 percent’.

19 “(B) CRITICAL TECHNOLOGY CORPORA-
 20 TION.—The term ‘critical technology corpora-
 21 tion’ means a corporation substantially all of
 22 the active business activities of which during
 23 substantially all of a taxpayer’s holding period
 24 of stock in the corporation are in connection
 25 with critical technologies (as defined in section

2500(6) of title 10, United States Code), transportation security technologies, antiterrorism technologies, technologies enhancing security by improving methods of personal identification (including biometrics), or environmental technologies for pollution minimization, remediation, or waste management.”

(C) EMPOWERMENT ZONE CONFORMING AMENDMENT.—Section 1202(a)(2)(A) is amended—

(i) by striking “60 percent” and inserting “100 percent”, and

(ii) by striking “50 percent” and inserting “75 percent”.

(2) DECREASE IN HOLDING PERIOD.—

(A) IN GENERAL.—Section 1202(a)(1) is amended by striking “5 years” and inserting “3 years”.

(B) CONFORMING AMENDMENT.—Section 1202(j)(1)(A) is amended by striking “5 years” and inserting “3 years”.

(3) EXCLUSION AVAILABLE TO CORPORATIONS.—

(A) IN GENERAL.—Subsection (a) of section 1202 (relating to partial exclusion for

gains from certain small business stock) is amended by striking “other than a corporation”.

(B) TECHNICAL AMENDMENT.—Subsection (c) of section 1202 is amended by adding at the end the following new paragraph:

“(4) STOCK HELD AMONG MEMBERS OF CONTROLLED GROUP NOT ELIGIBLE.—Stock of a member of a parent-subsidiary controlled group (as defined in subsection (d)(3)) shall not be treated as qualified small business stock while held by another member of such group.”

(4) STOCK OF LARGER BUSINESSES ELIGIBLE FOR EXCLUSION.—

(A) IN GENERAL.—Paragraph (1) of section 1202(d) (defining qualified small business) is amended by striking “\$50,000,000” each place it appears and inserting “\$100,000,000”.

(B) INFLATION ADJUSTMENT.—Section 1202(d) (defining qualified small business) is amended by adding at the end the following:

“(5) INFLATION ADJUSTMENT OF ASSET LIMITATION.—In the case of stock issued in any calendar year after 2002, the \$100,000,000 amount con-

1 tained in paragraph (1) shall be increased by an
2 amount equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-
5 mined under section 1(f)(3) for the calendar
6 year, determined by substituting ‘calendar year
7 2001’ for ‘calendar year 1992’ in subparagraph
8 (B) thereof.

9 If any amount as adjusted under the preceding sen-
10 tence is not a multiple of \$10,000, such amount
11 shall be rounded to the nearest multiple of
12 \$10,000.”

13 (b) INCREASE IN PERIOD TO PURCHASE REPLACE-
14 MENT STOCK AND QUALIFY FOR ROLLOVER.—

15 (1) IN GENERAL.—Section 1045(a)(2) (relating
16 to nonrecognition of gain) is amended by striking
17 “60-day” and inserting “180-day”.

18 (2) CONFORMING AMENDMENT.—Section
19 1045(b)(2) is amended by striking “60-day” and in-
20 serting “180-day”.

21 (c) EFFECTIVE DATES.—

22 (1) EXCLUSION.—The amendments made by
23 subsection (a) shall apply to stock issued after the
24 date of the enactment of this Act.

1 (2) ROLLOVER.—The amendment made by sub-
 2 section (b) shall apply to sales after the date of the
 3 enactment of this Act.

4 **SEC. 4. RECOVERY PERIOD FOR DEPRECIATION OF COM-**
 5 **PUTERS AND PERIPHERAL EQUIPMENT AND**
 6 **COMPUTER SOFTWARE.**

7 (a) RECOVERY PERIOD FOR COMPUTERS.—

8 (1) 3-YEAR PERIOD.—

9 (A) IN GENERAL.—Subparagraph (A) of
 10 section 168(e)(3) (relating to 3-year property)
 11 is amended by striking “and” at the end of
 12 clause (ii), by striking the period at the end of
 13 clause (iii) and inserting “, and”, and by add-
 14 ing at the end the following new clause:

15 “(iv) any computers or peripheral
 16 equipment (as defined in subsection
 17 (i)(2)(B)).”

18 (B) CONFORMING AMENDMENT.—Clause
 19 (iv) of section 168(e)(3)(B) (relating to 5-year
 20 property) is amended by inserting “(except
 21 computers or peripheral equipment)” before the
 22 comma.

23 (2) 3-YEAR RECOVERY PERIOD UNDER ALTER-
 24 NATIVE DEPRECIATION SYSTEM FOR TAX-EXEMPT
 25 USE PROPERTY, ETC.—Subparagraph (C) of section

1 168(g)(3) (relating to alternative depreciation sys-
2 tem for certain property) is amended to read as fol-
3 lows:

4 “(C) QUALIFIED TECHNOLOGICAL EQUIP-
5 MENT.—

6 “(i) IN GENERAL.—Except as pro-
7 vided in clause (ii), in the case of any
8 qualified technological equipment, the re-
9 covery period used for purposes of para-
10 graph (2) shall be 5 years.

11 “(ii) COMPUTERS OR PERIPHERAL
12 EQUIPMENT.—In the case of any computer
13 or peripheral equipment, the recovery pe-
14 riod used for purposes of paragraph (2)
15 shall be 3 years.”

16 (b) 24-MONTH USEFUL LIFE FOR DEPRECIATION OF
17 COMPUTER SOFTWARE.—Subparagraph (A) of section
18 167(f)(1) (relating to computer software) is amended by
19 striking “36 months” and inserting “24 months”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to property placed in service after
22 the date of the enactment of this Act.

1 **SEC. 5. DEDUCTION FOR 100 PERCENT OF HEALTH INSUR-**
2 **ANCE COSTS OF SELF-EMPLOYED INDIVID-**
3 **UALS.**

4 (a) IN GENERAL.—Paragraph (1) of section 162(l)
5 is amended to read as follows:

6 “(1) ALLOWANCE OF DEDUCTION.—In the case
7 of an individual who is an employee within the
8 meaning of section 401(c)(1), there shall be allowed
9 as a deduction under this section an amount equal
10 to 100 percent of the amount paid during the tax-
11 able year for insurance which constitutes medical
12 care for the taxpayer and the taxpayer’s spouse and
13 dependents.”

14 (b) CLARIFICATION OF LIMITATIONS ON OTHER COV-
15 ERAGE.—The first sentence of section 162(l)(2)(B) is
16 amended to read as follows: “Paragraph (1) shall not
17 apply to any taxpayer for any calendar month for which
18 the taxpayer participates in any subsidized health plan
19 maintained by any employer (other than an employer de-
20 scribed in section 401(c)(4)) of the taxpayer or the spouse
21 of the taxpayer.”

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2000.

1 **SEC. 6. DISCLOSURE OF TAX INFORMATION TO FACILITATE**
2 **COMBINED EMPLOYMENT TAX REPORTING.**

3 Section 6103(d)(5) is amended to read as follows:

4 “(5) DISCLOSURE FOR COMBINED EMPLOY-
5 MENT TAX REPORTING.—The Secretary may disclose
6 taxpayer identity information and signatures to any
7 agency, body, or commission of any State for the
8 purpose of carrying out with such agency, body, or
9 commission a combined Federal and State employ-
10 ment tax reporting program approved by the Sec-
11 retary. Subsections (a)(2) and (p)(4) and sections
12 7213 and 7213A shall not apply with respect to dis-
13 closures or inspections made pursuant to this para-
14 graph.”

15 **SEC. 7. INCOME AVERAGING FOR FARMERS AND FISHER-**
16 **MEN NOT TO INCREASE ALTERNATIVE MIN-**
17 **IMUM TAX LIABILITY.**

18 (a) IN GENERAL.—Section 55(c) (defining regular
19 tax) is amended by redesignating paragraph (2) as para-
20 graph (3) and by inserting after paragraph (1) the fol-
21 lowing new paragraph:

22 “(2) COORDINATION WITH INCOME AVERAGING
23 FOR FARMERS AND FISHERMEN.—Solely for pur-
24 poses of this section, section 1301 (relating to aver-
25 aging of farm and fishing income) shall not apply in
26 computing the regular tax.”

1 (b) ALLOWING INCOME AVERAGING FOR FISHER-
 2 MEN.—

3 (1) IN GENERAL.—Section 1301(a) is amended
 4 by striking “farming business” and inserting “farm-
 5 ing business or fishing business”.

6 (2) DEFINITION OF ELECTED FARM INCOME.—

7 (A) IN GENERAL.—Clause (i) of section
 8 1301(b)(1)(A) is amended by inserting “or fish-
 9 ing business” before the semicolon.

10 (B) CONFORMING AMENDMENT.—Subpara-
 11 graph (B) of section 1301(b)(1) is amended by
 12 inserting “or fishing business” after “farming
 13 business” both places it occurs.

14 (3) DEFINITION OF FISHING BUSINESS.—Sec-
 15 tion 1301(b) is amended by adding at the end the
 16 following new paragraph:

17 “(4) FISHING BUSINESS.—The term ‘fishing
 18 business’ means the conduct of commercial fishing
 19 as defined in section 3 of the Magnuson-Stevens
 20 Fishery Conservation and Management Act (16
 21 U.S.C. 1802).”

22 (c) EFFECTIVE DATE.—The amendments made by
 23 this section shall apply to taxable years beginning after
 24 December 31, 2001.

1 **SEC. 8. MODIFICATION OF UNRELATED BUSINESS INCOME**
 2 **LIMITATION ON INVESTMENT IN CERTAIN**
 3 **DEBT-FINANCED PROPERTIES.**

4 (a) IN GENERAL.—Section 514(c)(6) (relating to ac-
 5 quisition indebtedness) is amended—

6 (1) by striking “include an obligation” and in-
 7 serting “include—

8 “(A) an obligation”,

9 (2) by striking the period at the end and insert-
 10 ing “, or”, and

11 (3) by adding at the end the following:

12 “(B) indebtedness incurred by a small
 13 business investment company licensed under the
 14 Small Business Investment Act of 1958 which
 15 is evidenced by a debenture—

16 “(i) issued by such company under
 17 section 303(a) such Act, or

18 “(ii) held or guaranteed by the Small
 19 Business Administration.”

20 (b) EFFECTIVE DATE.—The amendment made by
 21 subsection (a) shall apply to acquisitions made on or after
 22 the date of the enactment of this Act.

